

Message Text

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PAGE 01 PARIS 23816 01 OF 02 282103Z
ACTION EUR-12

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FM AMEMBASSY PARIS
TO SECSTATE WASHDC 5456
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LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 23816

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TAGS: OECD, ECON, BE
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC): REVIEW OF BELGIUM, JULY 10, 1978

REF: (A) EDR(78)17; (B) PARIS 21145; STATE 172442

1. SUMMARY AND CONCLUSIONS: EDRC EXAMINATION OF THE
BELGIAN ECONOMY REVEALED SUBSTANTIAL AGREEMENT BETWEEN
SECRETARIAT, THE BELGIAN DELEGATION AND THE EDRC ON THE
MAIN POINTS OF ANALYSIS AND POLICY RECOMMENDATIONS.
BELGIAN DELEGATION, HEADED BY THUYSBAERT OF THE PRIME
MINISTER'S OFFICE (AND ASSISTED BY REPRESENTATIVES OF
FINANCE, CENTRAL BANK, LABOR, THE PLAN, ECONOMIC AFFAIRS
AND AGRICULTURE), AGREED THAT BELGIUM SHOULD PLAY ACTIVE
ROLE IN OECD CONCERTED ACTION PROGRAM BUT STRESSED THAT
GROWTH OF WORLD MARKETS (I.E., EXPANSIONS BY OTHER WELL-
PACED COUNTRIES) WAS PARTICULARLY IMPORTANT TO BELGIUM.
BELGIAN DEL GAVE BROAD DESCRIPTION OF ANTI-CRISIS LAW
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PAGE 02 PARIS 23816 01 OF 02 282103Z

STRESSING THAT ITS OVERALL EFFECT WAS NOT TO BE DEFLA-
TIONARY; RATHER LAW REPRESENTED AN ATTEMPT TO RESTRUC-
TURE PUBLIC FINANCES TO INCREASE THE EFFICIENCY OF THE
STIMULUS PROVIDED BY THE GOVERNMENT SECTOR. EDRC AND
BELGIAN DELEGATION QUESTIONED SECRETARIAT'S RECOMMENDA-
TIONS ON "WORK SHARING, WHICH WILL BE MODIFIED TO STRESS
THE LONGER-TERM AND COST IMPLICATIONS OF SUCH PROGRAMS.

BELGIAN DELEGATION EMPHASIZED THAT PRESENT MANPOWER POLICIES WERE TEMPORARY TO EASE LABOR SUPPLY PRESSURES UNTIL RECOVERY BROUGHT ABOUT. DESPITE ATTEMPTS BY VARIOUS DELEGATIONS TO ENGAGE DIALOGUE ON BELGIAN EXCHANGE RATE POLICY, CENTRAL BANK REP (JANSSENS) INDICATED EDRC NOT THE PLACE FOR SUCH A DISCUSSION. REPORT ON ASPECTS OF EXDRC DISCUSSION DEALING WITH LUXEMBOURG TRANSMITTED SEPTEL. END SUMMARY

2. RECENT TRENDS AND OUTLOOK: BELGIAN DELEGATION AGREED IN LARGE MEASURE WITH SECRETARIAT'S PRESENTATION OF 1977 BELGIAN ECONOMIC PERFORMANCE AND ITS FORECAST FOR 1978 (GNP GROWTH AROUND 2-3/4 PERCENT), DESPITE LACK OF OFFICIAL GOB FORECAST. BELGIANS HOWEVER ESTIMATE STRONGER GROWTH OF PRIVATE CONSUMPTION (3 PERCENT VS. SECRETARIAT'S 2-1/2) BALANCED BY WEAKER INVESTMENT (1.1 VS. 2-1/4). INVESTMENT PICTURE IS MIXED -- WITH SOME STRONG SECTORS (BUILDING MATERIALS, NON-FERROUS METALS, CHEMICALS), SOME WEAK (STEEL, TEXTILE, FOOD PROCESSING). INFLATION FORECASTS ARE SIMILAR, ABOUT 4-3/4 PERCENT FOR CPI. UNEMPLOYMENT EXPECTED TO PERSIST AT HIGH LEVELS ALTHOUGH GOVERNMENT PROGRAMS MAY SLOW THE TENDENCY FOR UNEMPLOYMENT TO INCREASE IN THE SHORT RUN. BELGIANS FEEL LONGER-RUN EMPLOYMENT OUTLOOK LESS OPTIMISTIC DUE COMBINATION SLOW GROWTH, UNFAVORABLE DEMOGRAPHIC TRENDS AND RISING FEMALE PARTICIPATION RATES.
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PAGE 03 PARIS 23816 01 OF 02 282103Z

3. ECONOMIC POLICY: DISCUSSION OF POLICY WAS ESSENTIALLY RELATED TO IMMINENT ENACTMENT OF ANTI-CRISIS LAW. BELGIAN DELEGATION STRESSED THAT LAW NOT DESIGNED TO BE DEFLATIONARY OVERALL, BUT TO REGAIN CONTROL OVER PUBLIC EXPENDITURES AND TO RESTORE HEALTHY BALANCE TO PUBLIC FINANCES, INCLUDING ENHANCEMENT OF RELATIVE EFFICIENCY IN USE OF RESOURCES BY PUBLIC AND PRIVATE SECTOR. DELEGATION UNABLE TO FULLY DESCRIBE VARIOUS MEASURES INVOLVED SINCE LAW EXCEPTIONALLY COMPLICATED (ENCOMPASSING BUDGETARY AND STRUCTURAL ASPECTS OF POLICY) AND STILL BEFORE PARLIAMENT. ON BUDGETARY SIDE, EFFORTS IN 1978 WILL BE DIRECTED TOWARD REDUCING FISCAL FRAUD AND NEUTRALIZING AUTOMATIC EXPENDITURES NOT DIRECTLY RELATED TO CYCLICAL SITUATION, IN 1979 GOVERNMENT SPENDING WOULD BE HELD TO ZERO REAL INCREASE. STRUCTURAL MEASURES ARE PROPOSED

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PAGE 01 PARIS 23816 02 OF 02 282114Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 PARIS 23816

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IN THE AREAS OF ENERGY, FINANCIAL AND CREDIT SYSTEM,
SOCIAL SECURITY AND INVESTMENT. RECENT USE OF FISCAL
POLICY AS MAIN INSTRUMENT OF STIMULUS HAS LED, ACCORD-
ING TO BELGIAN DEL, TO LARGE DEFICITS AND EXCESSIVE
DEPENDENCE ON FINANCIAL MARKETS; TO DATE FINANCING HAS
NOT BEEN A PROBLEM DUE TO HIGH LIQUIDITY OF CAPITAL
MARKET, BUT FUTURE COULD BE ANOTHER QUESTION -- THUS
ATTEMPT TO IMPROVE BALANCE IN PUBLIC SECTOR FINANCES.
BELGIANS FEEL RECENT SHORTENING OF MATURITY STRUCTURE
OF PUBLIC DEBT MAY SUGGEST VOLUME OF DEBT ISSUED IN
RECENT YEARS EXCESSIVE.

4. BELGIAN DEL FULLY SUPPORTED DEMAND MANAGEMENT CHAP-
TER OF CONCERTED ACTION PROGRAM ADOPTED BY OECD MINISTERS.
HE AGREED THAT BOP AND INFLATION CONSTRAINTS ON BELGIUM
WERE MINIMAL, BUT STRESSED NEED FOR COMPARABLE ACTION
BY OTHER, WELL-PLACED COUNTRIES. PRECISE MEASURES BY
BELGIUM WILL BE FORMULATED WITHIN CONTEXT OF EEC PROGRAM.

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PAGE 02 PARIS 23816 02 OF 02 282114Z

5. EMPLOYMENT POLICY EXPLORED IN SOME DEPTH BY EDRC
WHICH EXPRESSED CONSIDERABLE RELUCTANCE TO GO ALONG
WITH SECRETARIAT'S RECOMMENDATIONS ON SCHEMES FOR

REDUCING UNEMPLOYMENT THROUGH SHORTER HOURS OR EARLIER RETIREMENT. BELGIAN DELEGATION AGREED THAT "EXTREME PRUDENCE" NECESSARY IN THIS AREA, STRESSING THAT PROGRAMS NOW IN FORCE (E.G., PRE-PENSION AND TRAINING SCHEMES) WERE TEMPORARY AND WOULD BE ELIMINATED WHEN DEMAND RECOVERED, BUT IN MEANWHILE, THEY CREATED BETTER LABOR MARKET CONDITIONS. CONCLUSIONS OF SURVEY WILL BE REVISED TO REFLECT EDRC DISCUSSION. BELGIAN DEL EXPLAINED THAT "PRE-PENSION" SCHEME DID NOT IN ALL CASES REQUIRE RECRUITMENT OF YOUNG PEOPLE TO TAKE PLACE OF PERSON PRE-PENSIONED -- THUS DID NOT NECESSARILY LOCK RESOURCES IN DECLINING INDUSTRIES. IN RESPONSE U.S. QUESTION, BELGIANS HAVE NO MACRO FULL-EMPLOYMENT UNEMPLOYMENT TARGET, BUT RATHER ATTEMPT TO ANALYZE TRENDS WITHIN LABOR MARKET GROUPS.

6. NUMEROUS DELS FORMULATED QUESTIONS WHICH, IN ESSENCE, ALBEIT BY VARIOUS CIRCUMNAVIGATIONS, QUESTIONED THE WISDOM OF BELGIUM'S LINK TO THE DM IN THE EUROPEAN SNAKE; THUS STEADY NOMINAL APPRECIATION OF BF. CENTRAL BANK REP RESPONDED, QUITE DEFENSIVELY, THAT BELGIUM WAS FOLLOWING THE POLICY IT CONSIDERED BEST IN ITS CIRCUMSTANCES AND THAT "HARD CURRENCY OPTION IS NEVER CALLED INTO QUESTION IN BELGIUM." HE FELT EDRC NOT THE PLACE TO GET INTO DISCUSSION OF ISSUE, BUT REFERRED THOSE INTERESTED TO SPRING ISSUE OF BELGIAN NATIONAL BANK REPORT WHICH ANALYZED THE PROS AND CONS.

7. MEDIUM TERM: BELGIAN DEL REPORTED THAT A "WHITE PAPER" ON MEDIUM-TERM ISSUES, ESPECIALLY INDUSTRIAL AND LIMITED OFFICIAL USE

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PAGE 03 PARIS 23816 02 OF 02 282114Z

INVESTMENT POLICY, WOULD BE ISSUED SHORTLY. PRELIMINARY INDICATIONS ARE FOR A GREATER PUBLIC SECTOR ROLE IN STIMULATING PRIVATE INVESTMENT ACTIVITY, INCLUDING MEASURES FOR RATIONALIZATION OF TRADITIONAL SECTORS AND A STRATEGY OF INDUSTRIAL SPECIALIZATION IN HIGH TECHNOLOGY THROUGH SUPPORT OF R AND D ACTIVITIES. PLAN WOULD INVOLVE PUBLIC HOLDING COMPANY, ENLARGED PUBLIC INVESTMENT CORPORATION AND NEW EXPORT FINANCING BANK -- AND WOULD SEEK TO ENHANCE INDEPENDENCE OF BELGIAN INDUSTRY FROM "FOREIGN DECISION CENTERS" WITHOUT HOWEVER SACRIFICING FLOWS OF FOREIGN PRIVATE INVESTMENT. BELGIAN DEL NOTED THAT EFFORTS TO RESTRICT INDUSTRY WOULD BE ALL THE MORE DIFFICULT ("A REAR GUARD ACTION") DUE TO THE NUMEROUS DEFENSIVE POLICIES TAKEN SINCE CURRENT DOWNTURN BEGAN. EDRC WELCOMED UPCOMING "WHITE PAPER" WHICH COULD FORM BASIS OF 1979 SURVEY.

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